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Tenth District Energy Activity Declined Further *Federal Reserve Bank of Kansas City Releases Third Quarter Energy Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the third quarter Energy Survey today. According to Chad Wilkerson, senior vice president at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District energy activity declined further and expectations are slightly negative.

“District drilling and business activity posted a decline for the seventh consecutive quarter in Q3 and is not expected to rebound in coming months,” said Wilkerson. “However, employment continued to grow, and firms’ hiring plans are unchanged despite further contractions in revenues and profits.”

The Kansas City Fed’s quarterly Tenth District Energy Survey provides information on current and expected activity among energy firms in the Tenth District. The survey monitors oil and gas-related firms located and/or headquartered in the Tenth District, with results based on total firm activity. Survey results reveal changes in several indicators of energy activity, including drilling, capital spending, and employment. Firms also indicate projections for oil and gas prices. All results are diffusion indexes – the percentage of firms indicating increases minus the percentage of firms indicating decreases.

A summary of the survey is attached. Results from past surveys and release dates for future surveys can be found at <https://www.kansascityfed.org/surveys/energy-survey>.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation’s central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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TENTH DISTRICT ENERGY SUMMARY

Third quarter energy survey results revealed that Tenth District energy activity declined further and expectations are slightly negative. Firms reported that oil prices needed to be on average \$65 per barrel for drilling to be profitable, and \$89 per barrel for a substantial increase in drilling to occur. Natural gas prices needed to be \$3.43 per million Btu for drilling to be profitable on average, and \$4.24 per million Btu for drilling to increase substantially.

Summary of Quarterly Indicators

Tenth District energy activity declined further in the third quarter of 2024, as indicated by firms contacted between September 16th, 2024, and September 30th, 2024 (Tables 1 & 2). The quarter-over-quarter drilling and business activity index was largely unchanged, at -14, compared to -13 in the previous quarter (Chart 1). Employment levels grew moderately with a reading of 19, even as revenues and profits declined further.

Drilling activity also remained down from this time last year, with the year-over-year drilling and business activity index ticking down from -25 to -29. Annual revenues decreased substantially at a reading of -42. Employment levels continued increasing from year-ago levels, but employee hours fell. Capital expenditures continued to decrease moderately, but access to credit stayed positive.

Activity is expected to be slightly negative in the next six months, with the six-month drilling expectations index falling from 21 in Q2 to -3 in Q3. Expected revenues are also at -3, but profits are expected to increase with a reading of 29. All other expectations indexes are positive except for supplier delivery time.

Summary of Special Questions

Firms were asked what oil and natural gas prices were needed on average for drilling to be profitable across the fields in which they are active. The average oil price needed was \$65 per barrel (Chart 2), while the average natural gas price needed was \$3.43 per million Btu (Chart 3). Firms were also asked what prices were needed for a substantial increase in drilling to occur across the fields in which they are active. The average oil price needed was \$89 per barrel (Chart 2), and the average natural gas price needed was \$4.24 per million Btu (Chart 3).

Firms reported what they expected oil and natural gas prices to be in six months, one year, two years, and five years. The average expected WTI prices were \$73, \$77, \$80, and \$86 per barrel, respectively. The average expected Henry Hub natural gas prices were \$2.73, \$3.05, \$3.33, and \$3.68 per million Btu, respectively.

Firms were asked how their hiring and capital expenditures plans have changed since the beginning of the year (Chart 4). Most firms' (87%) hiring plans are unchanged, while 6.5% now expect more hiring in 2024 than they did at the beginning of the year and another 6.5% expect less. Responses for capital expenditures were mixed, with 42% of firms reporting unchanged plans for capital expenditures, 35% expecting less, and 23% expecting more.

Contacts were also asked how uncertainty about economic conditions has changed since the beginning of the year (Chart 5). Over two-thirds (68%) of firms report more uncertainty about economic conditions now than the beginning of the year, while 23% report no change in their uncertainty. Another 3% each reported much more uncertainty, less uncertainty, and much less uncertainty.

Selected Energy Comments

“The natural gas side of our business has become very cyclical and it feels like one year of great pricing and then if we have warm winters, two years of lousy pricing. The industry has become too good at finding natural gas and with the Permian takeaway increasing, a lot of Permian operators don't care about gas as a revenue stream with the strong oil component.”

“Geopolitical risk remains and potential economic slowdown continues to be a possibility.”

“The easiest barrels have been produced. A needed return on capital expenditures will provide a long-term floor for oil price. Natural gas needs to be close to \$4.00 for profitable development other than associated gas in the Permian.”

“Improved demand for increased LNG capacity will strengthen prices.”

“Continued overabundance of gas supply dampens price increases.”

“Contract labor force is still not good.”

“The market price of our product is not high enough to warrant drilling at this time.”

“We think natural gas prices have to create an incentive for more drilling unless we have another warm winter. Then it will require decline in supply or enough demand growth.”

“We will concentrate on oilier plays.”

“Prices remain volatile. Watching for any demand softening.”

“The key factors driving us in the next six months are finding assets to acquire that fit our criteria by expanding out of the MidCon due to increased competition in Oklahoma.”

Table 1
Summary of Tenth District Energy Conditions, Quarter 3, 2024

Energy Company Indicators	Quarter 3 vs. Quarter 2 (percent)*				Quarter 3 vs. Year Ago (percent)*				Expected in Six Months (percent)*			
	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]
Drilling/Business Activity	16	55	29	-13	13	45	42	-29	27	43	30	-3
Total Revenues	28	31	41	-13	23	13	65	-42	26	45	29	-3
Capital Expenditures					28	34	38	-9	42	29	29	13
Supplier Delivery Time	3	90	6	-3	3	81	16	-13	0	94	6	-6
Total Profits	31	31	38	-6	32	10	58	-26	52	26	23	29
Number of Employees	28	63	9	19	39	48	13	26	42	52	6	35
Employee Hours	16	66	19	-3	13	65	23	-10	23	65	13	10
Wages and Benefits	25	69	6	19	77	16	6	71	48	48	3	45
Access to Credit	13	81	6	6	16	74	10	6	13	84	3	10
Expected Oil Prices									38	41	22	16
Expected Natural Gas Prices									59	38	3	56
Expected Natural Gas Liquids Prices									52	42	6	45

*Percentage may not add to 100 due to rounding.

[^]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

Note: The third quarter survey ran from September 16, 2024 to September 30, 2024 and included 32 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Drilling/Business Activity Indexes

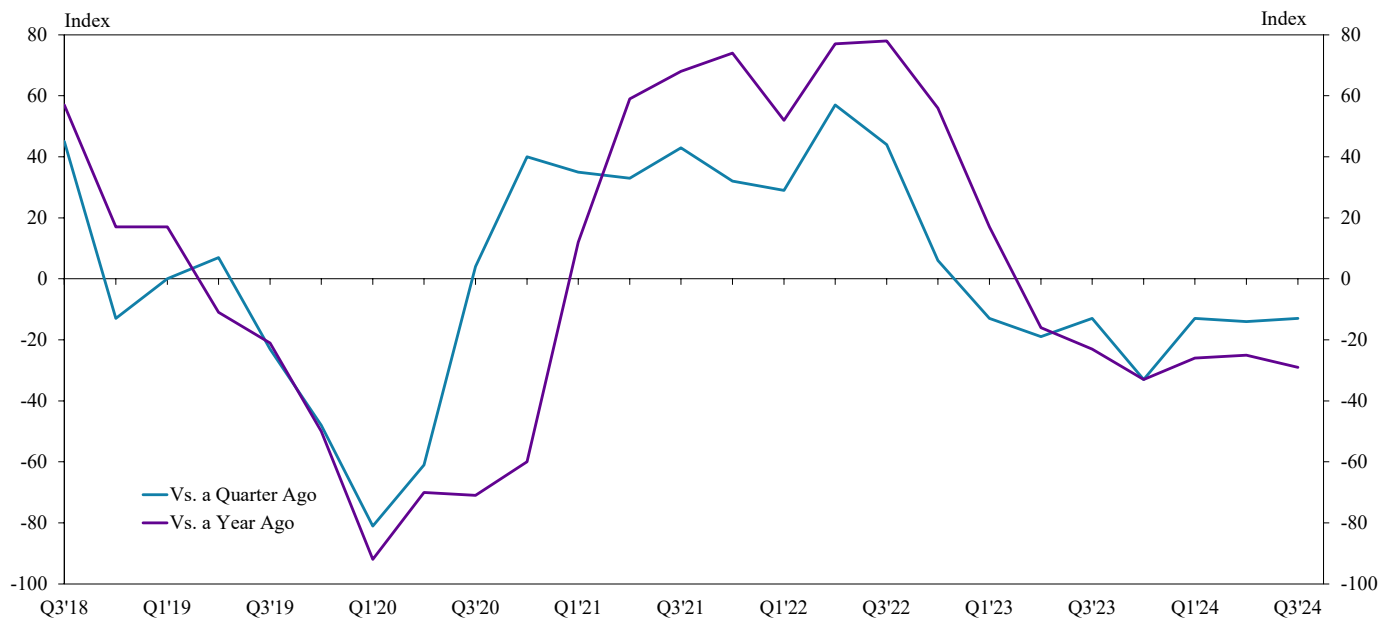


Table 2
Historical Energy Survey Indexes

	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24
<i>Versus a Quarter Ago</i>													
(not seasonally adjusted)													
Drilling/Business Activity	43	32	29	57	44	6	-13	-19	-13	-33	-13	-14	-13
Total Revenues	82	63	38	87	25	-8	-42	-42	13	-13	0	-10	-13
Capital Expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Supplier Delivery Time	-3	6	-9	10	-3	-11	-3	-21	-10	-3	-16	-13	-3
Total Profits	69	34	44	68	29	-17	-26	-39	-3	-19	-6	-13	-6
Number of Employees	26	34	39	42	47	38	6	27	13	13	18	3	19
Employee Hours	38	28	41	39	37	41	6	18	6	0	3	13	-3
Wages and Benefits	33	53	56	58	61	59	42	27	35	32	48	27	19
Access to Credit	16	10	25	16	6	6	0	3	-3	-6	-3	13	6
<i>Versus a Year Ago</i>													
Drilling/Business Activity	68	74	52	77	78	56	17	-16	-23	-33	-26	-25	-29
Total Revenues	92	88	72	90	87	67	-10	-48	-23	-17	-6	-21	-42
Capital Expenditures	54	59	63	71	71	65	26	0	6	6	-21	-20	-9
Supplier Delivery Time	8	9	-3	23	6	-5	10	-45	-6	-23	-39	-28	-13
Total Profits	82	84	75	81	84	61	3	-48	-26	-17	-13	-10	-26
Number of Employees	31	32	66	55	61	56	26	39	23	43	34	24	26
Employee Hours	45	29	63	55	50	57	26	21	3	20	13	14	-10
Wages and Benefits	56	77	84	77	87	89	77	58	77	73	69	72	71
Access to Credit	29	23	38	19	27	3	6	6	-3	0	3	14	6
<i>Expected in Six Months</i>													
(not seasonally adjusted)													
Drilling/Business Activity	45	45	42	50	25	19	-13	-22	7	7	-10	21	-3
Total Revenues	58	50	53	55	27	11	-26	3	42	23	13	28	-3
Capital Expenditures	31	53	63	52	52	49	-6	-9	16	7	-19	14	13
Supplier Delivery Time	8	9	9	16	-10	-19	-23	-42	0	-13	-13	-4	-6
Total Profits	59	44	38	35	39	6	-23	-3	23	3	3	24	29
Number of Employees	31	42	47	42	42	38	13	12	19	40	25	28	35
Employee Hours	26	23	41	32	27	30	13	3	3	27	13	14	10
Wages and Benefits	46	71	72	63	65	70	45	24	52	55	31	34	45
Access to Credit	13	6	19	6	7	3	-6	3	-3	-3	10	0	10
Expected Oil Prices	33	34	-16	-6	20	62	29	42	32	32	31	14	16
Expected Natural Gas Prices	31	3	0	10	-10	-3	14	53	50	-16	45	86	56
Expected Natural Gas Liquids Prices	34	13	19	0	21	22	20	31	37	-7	16	41	45
<i>Special Price Questions</i>													
(averages)													
Profitable WTI Oil Price (per barrel)	\$57		\$62	\$65	\$61	\$64	\$64	\$63	\$64	\$64	\$65	\$64	\$65
WTI Price to Substantially Increase Drilling		\$73	\$86	\$98	\$102	\$89	\$86	\$86	\$90	\$84	\$90	\$91	\$89
WTI Price Expected in 6 Months	\$73	\$75	\$96	\$109	\$88	\$83	\$75	\$75	\$91	\$76	\$81	\$79	\$73
WTI Price Expected in 1 Year	\$75	\$78	\$89	\$102	\$89	\$86	\$81	\$79	\$88	\$79	\$83	\$80	\$77
WTI Price Expected in 2 Years	\$75	\$78	\$83	\$88	\$90	\$88	\$86	\$83	\$88	\$84	\$85	\$83	\$80
WTI Price Expected in 5 Years	\$76	\$80	\$84	\$86	\$93	\$88	\$90	\$88	\$93	\$88	\$90	\$88	\$86
Profitable Natural Gas Price (per million BTU)	\$3.88		\$3.72	\$4.64	\$4.42	\$4.32	\$3.45	\$3.49	\$3.45	\$3.12	\$3.47	\$3.47	\$3.43
Natural Gas Price to Substantially Increase Drilling		\$4.27	\$4.53	\$6.34	\$7.65	\$6.13	\$4.74	\$4.67	\$4.36	\$4.04	\$4.38	\$4.68	\$4.24
Henry Hub Price Expected in 6 Months	\$4.72	\$3.66	\$4.45	\$7.06	\$7.46	\$5.01	\$2.82	\$3.00	\$3.06	\$2.55	\$2.16	\$3.00	\$2.73
Henry Hub Price Expected in 1 Year	\$4.22	\$3.92	\$4.32	\$6.65	\$6.48	\$5.52	\$3.33	\$3.33	\$3.34	\$3.04	\$2.71	\$3.10	\$3.05
Henry Hub Price Expected in 2 Years	\$4.31	\$3.97	\$4.29	\$6.06	\$6.16	\$5.78	\$4.04	\$3.71	\$3.97	\$3.42	\$3.01	\$3.45	\$3.33
Henry Hub Price Expected in 5 Years	\$4.79	\$4.29	\$4.74	\$5.77	\$6.51	\$6.19	\$4.51	\$3.98	\$4.83	\$3.96	\$3.58	\$3.86	\$3.68

Chart 2. Special Question: What price is currently needed for a drilling to be profitable and for a substantial increase in drilling to occur for oil? What do you expect WTI prices to be in six months, one year, two years, and five years?

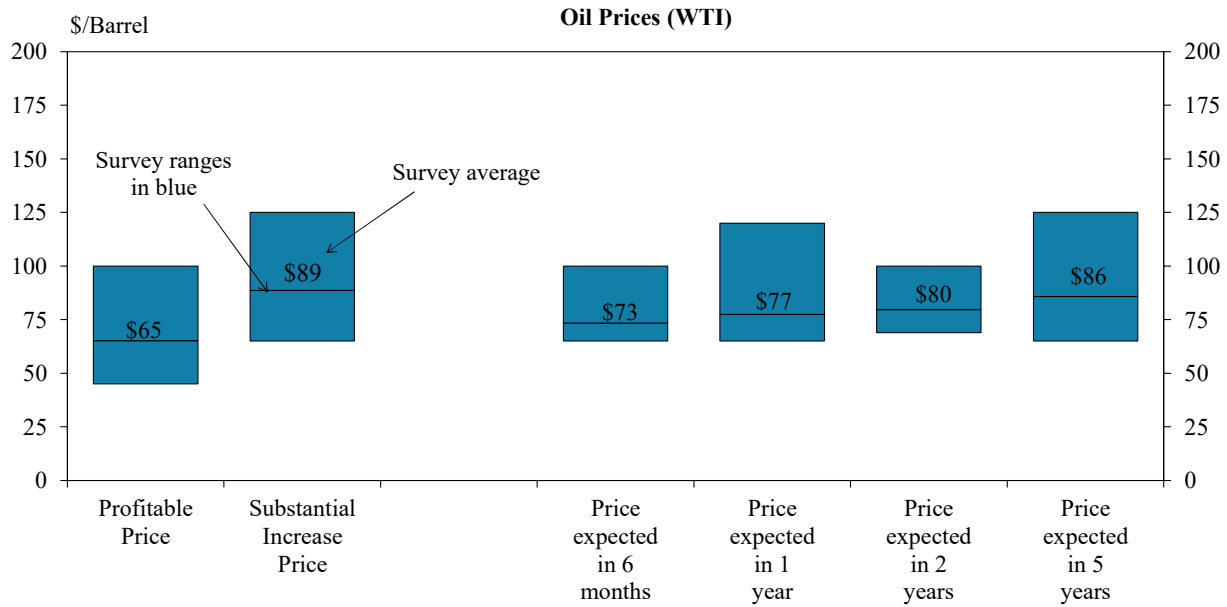


Chart 3. Special Question: What price is currently needed for a drilling to be profitable and for a substantial increase in drilling to occur for natural gas? What do you expect Henry Hub prices to be in six months, one year, two years, and five years?

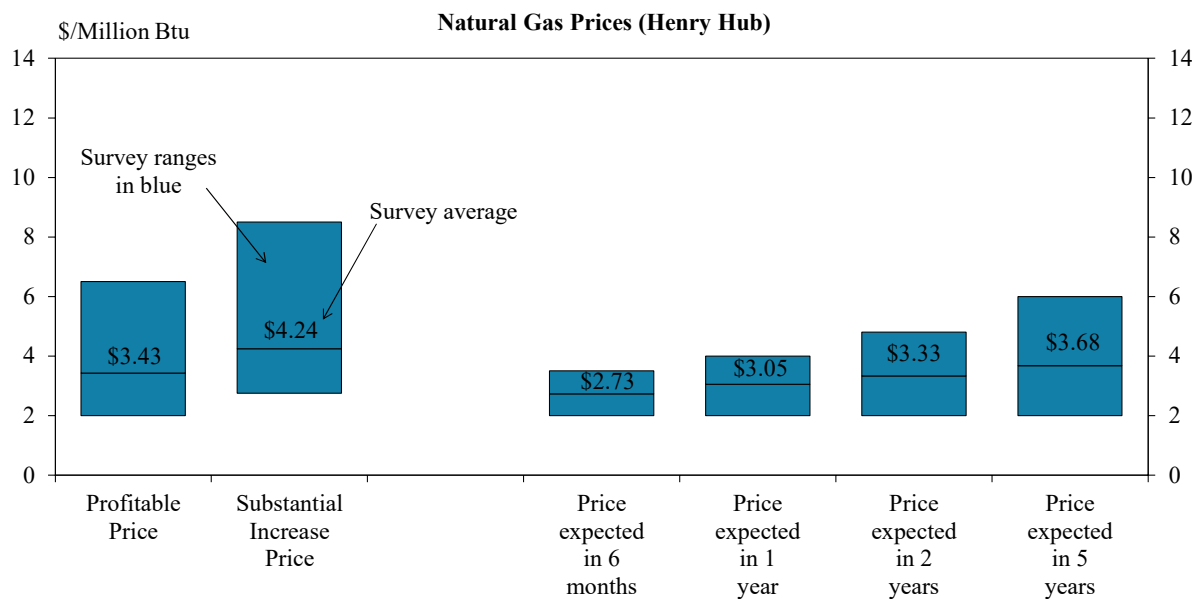


Chart 4. Special Question: Compared to the beginning of the year, have your hiring/capital expenditures plans changed for the remainder of 2024?

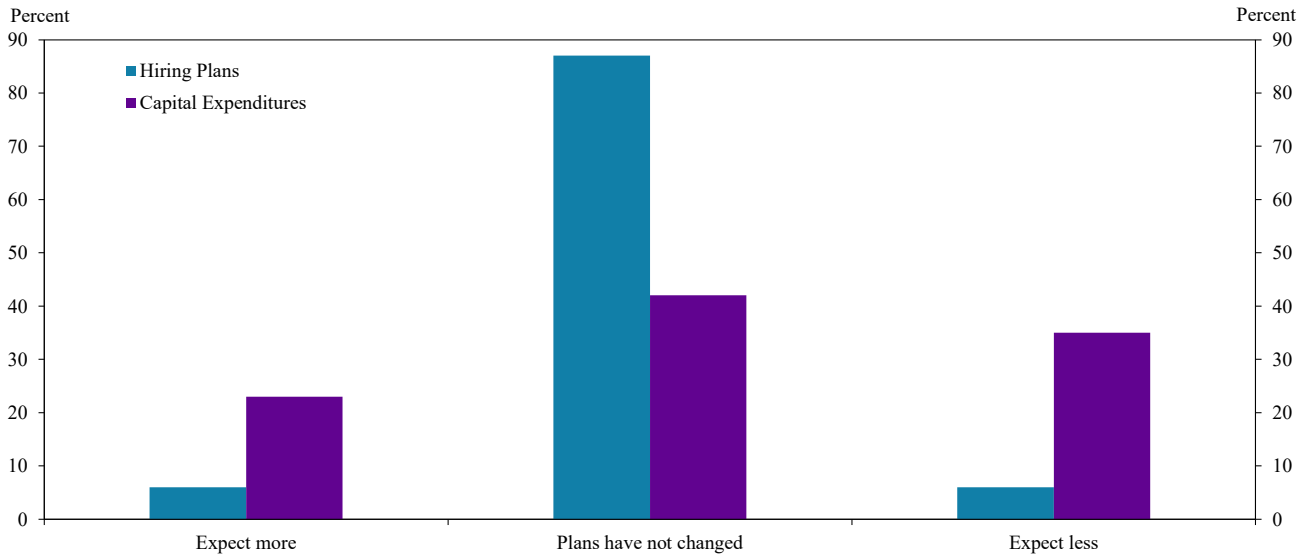


Chart 5. Special Question: How has your uncertainty about economic conditions for your business changed since the beginning of the year?

